

**OSCEOLA TOWNSHIP, OSCEOLA COUNTY**

**EVART, MICHIGAN**

**MARCH 31, 2008**

***Baird, Cotter and Bishop, P.C.***

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

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OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

MARCH 31, 2008

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# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

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September 17, 2008

### INDEPENDENT AUDITORS' REPORT

To the Township Board  
Osceola Township  
Osceola County  
Evart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Osceola Township, Osceola County, Evart, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Osceola Township, Osceola County, Evart, Michigan as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Osceola Township, Osceola County, Evart, Michigan's basic financial statements. The individual fund financial statement and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Osceola Township, a general law township located in Osceola County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Osceola Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2008.

**Financial Highlights**

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$400,235. Of this amount, \$204,982 may be used to meet the Township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported an ending fund balance of \$207,541. Of this amount, \$204,982 is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2008.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government and administration, public safety, public works, and other functions. The Township does not have any business-type activities.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township were \$400,235 at March 31, 2008, meaning the Township’s assets were greater than its liabilities by this amount.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Osceola Township**  
**Net Assets as of March 31, 2008**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current Assets	\$ 207,825
Non Current Assets	
Capital Assets	244,722
Less: Accumulated Depreciation	<u>52,028</u>
Total Non Current Assets	<u>192,694</u>
<b>Total Assets</b>	<b><u><u>\$ 400,519</u></u></b>
<b>Liabilities</b>	
Current Liabilities	<u>\$ 284</u>
<b>Net Assets</b>	
Invested in Capital Assets	192,694
Restricted for Specific Purposes	2,559
Unrestricted	<u>204,982</u>
<b>Total Net Assets</b>	<u>400,235</u>
<b>Total Liabilities and Net Assets</b>	<b><u><u>\$ 400,519</u></u></b>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Township has \$204,982 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$15,237 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Osceola Township**  
**Change in Net Assets**  
**for the Fiscal Year Ended March 31, 2008**

	<b><u>Governmental</u></b> <b><u>Activities</u></b>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 323
Operating Grants and Contributions	2,559
<b>General Revenues</b>	
Taxes	22,480
State Grants	76,488
Licenses and Permits	350
Interest Earnings	7,197
Other	2,475
<b>Total Revenues</b>	<u>111,872</u>
<b><u>Expenses</u></b>	
Legislative	5,921
General Government	57,400
Public Safety	16,584
Public Works	3,625
Community and Economic Development	1,420
Recreational and Cultural	8,112
Other Functions	3,573
<b>Total Expenses</b>	<u>96,635</u>
Change in Net Assets	15,237
<b><u>NET ASSETS</u></b> - Beginning of Year	<u>384,998</u>
<b><u>NET ASSETS</u></b> - End of Year	<u><u>\$ 400,235</u></u>

**Governmental Activities**

During the fiscal year ended March 31, 2008, the Township's net assets increased by \$15,237 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of



OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant portion of the revenue for all governmental activities of Osceola Township comes from state shared revenues of \$76,488. The Township levied .8586 mills for operating purposes which raised revenues of \$22,480.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation.

The Township's governmental activities expenses are dominated by general governmental. The Township spent \$57,400 in fiscal year 2008 on General Government expenses. Public Safety represented the next largest expense at \$16,584 followed by recreation and cultural at \$8,112.

**Business-Type Activities**

The Township does not maintain any Business-Type Activities.

**Financial Analysis of the Government's Funds**

***Governmental Funds*** The focus of Osceola Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Osceola Township's governmental fund reported an ending fund balance of \$207,541. Approximately 98.8%, or \$204,982 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for telecommunications right-of-way maintenance must be used for expenditures that relate to road maintenance.

**General Fund** – The General Fund decreased its fund balance by \$30,059 which brings the fund balance to \$207,541. The General Fund's fund balance has \$204,982 unreserved and \$2,559 reserved for telecommunications right-of-way maintenance. All of the General Fund's functions ended the year with expenditures below budgeted amounts except the legislative function. Property taxes and late fees amounted to \$22,480. State shared revenues were collected in the amount of \$76,488.

**Proprietary Fund** – The Township does not maintain any proprietary funds.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for governmental activities as of March 31, 2008, amounted to \$192,694 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$500 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

**Osceola Township**  
**Capital Assets as of March 31, 2008**

	<b>Governmental Activities</b>
Land	\$ 24,600
Buildings and Improvements	44,098
Equipment, Furniture and Fixtures	23,562
Infrastructure	152,462
	<hr/> 244,722
Less: Accumulated Depreciation	<hr/> 52,028
<b>Net Capital Assets</b>	<hr/> <b>\$ 192,694</b> <hr/>

Major capital asset events during the current fiscal year included the following:

- ◆ The Township had a new bridge put in on 90<sup>th</sup> Avenue at a cost of \$52,462.

**Long-Term Debt.** Osceola Township has no obligation for any long-term debt as of March 31, 2008.

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues. State-shared revenues are expected to remain the same in the 2008-09 fiscal year.

This factor was considered in preparing the Township's budget for the 2008-09 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Osceola Township at 8995 95<sup>th</sup> Avenue, Evart, Michigan 49631.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

STATEMENT OF NET ASSETS  
MARCH 31, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 185,316
Receivables	
Taxes	2,827
External Party (Fiduciary Fund)	1,628
Due from Other Governments	<u>18,054</u>
Total Current Assets	<u>207,825</u>
<u>CAPITAL ASSETS</u>	
Land	24,600
Buildings and Improvements	44,098
Equipment, Furniture and Fixtures	23,562
Infrastructure	<u>152,462</u>
	244,722
Less Accumulated Depreciation	<u>52,028</u>
Net Capital Assets	<u>192,694</u>
TOTAL ASSETS	<u><u>\$ 400,519</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES</u>	
Payroll Taxes and Withholdings	<u>\$ 284</u>
<u>NET ASSETS</u>	
Invested in Capital Assets	192,694
Restricted	
Telecommunications Right-of-Way Maintenance	2,559
Unrestricted	<u>204,982</u>
TOTAL NET ASSETS	<u><u>\$ 400,235</u></u>

The accompanying notes are an integral part of the financial statements.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2008

					NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			TOTAL GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 5,921	\$ 0	\$ 0	\$ 0	\$ (5,921)
General Government	57,400	323	0	0	(57,077)
Public Safety	16,584	0	0	0	(16,584)
Public Works	3,625	0	2,559	0	(1,066)
Community and Economic Development	1,420	0	0	0	(1,420)
Recreation and Cultural	8,112	0	0	0	(8,112)
Other Functions	3,573	0	0	0	(3,573)
Total Governmental Activities	<u>\$ 96,635</u>	<u>\$ 323</u>	<u>\$ 2,559</u>	<u>\$ 0</u>	<u>(93,753)</u>
<u>GENERAL REVENUES</u>					
Taxes					22,480
State Grants					76,488
Licenses and Permits					350
Interest Earnings					7,197
Other					2,475
Total General Revenues					<u>108,990</u>
Change in Net Assets					15,237
<u>NET ASSETS</u> - Beginning of Year					<u>384,998</u>
<u>NET ASSETS</u> - End of Year					<u>\$ 400,235</u>

The accompanying notes are an integral part of the financial statements.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2008

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 185,316
Taxes Receivable	2,827
Due from Other Funds	1,628
Due from Other Governments	18,054
TOTAL ASSETS	<u>\$ 207,825</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Payroll Taxes and Withholdings	<u>\$ 284</u>
 <u>FUND BALANCE</u>	
Reserved for:	
Telecommunications Right-of-Way Maintenance	2,559
Unreserved	
Undesignated	204,982
Total Fund Balance	<u>207,541</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 207,825</u>

The accompanying notes are an integral part of the financial statements.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2008

Total Fund Balance for Governmental Funds	\$ 207,541
-------------------------------------------	------------

Amounts Reported for Governmental Activities in the  
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$ 24,600	
Buildings and Improvements	44,098	
Equipment, Furniture and Fixtures	23,562	
Infrastructure	152,462	
Accumulated Depreciation	(52,028)	192,694

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 400,235</u>
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The accompanying notes are an integral part of the financial statements.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2008

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Taxes	\$ 22,480
Licenses and Permits	350
State Grants	79,047
Charges for Services	323
Interest and Rents	7,197
Other Revenues	<u>2,475</u>
Total Revenues	<u>111,872</u>
<u>EXPENDITURES</u>	
Legislative	5,921
General Government	53,859
Public Safety	16,584
Public Works	52,462
Community and Economic Development	1,420
Recreation and Cultural	8,112
Other Functions	<u>3,573</u>
Total Expenditures	<u>141,931</u>
Excess (Deficiency) of Revenues over Expenditures	(30,059)
<u>FUND BALANCE</u> - Beginning of Year	<u>237,600</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 207,541</u></u>

The accompanying notes are an integral part of the financial statements.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2008

Net Change in Fund Balance - Total Governmental Funds	\$ (30,059)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(7,166)
Capital Outlay	<u>52,462</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 15,237</u></u>
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The accompanying notes are an integral part of the financial statements.



OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
MARCH 31, 2008

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash	<u>\$          1,628</u>
<u>LIABILITIES</u>	
Due to Other Funds	<u>\$          1,628</u>
<u>NET ASSETS</u>	<u>\$              0</u>

The accompanying notes are an integral part of the financial statements.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Osceola Township is a general law township located in Osceola County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Osceola Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, Osceola Township reports the following fund types:

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Township's Investment Policy states that the Township Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Township Board at the Board's organizational meeting after each regular election of board members.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in (a).
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the Township. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

- (h) Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the Local Government Investment Pool Act, 1985 PA-121, MCL 129.141 to 129.150.

**2. *Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and county taxes are levied and due July 1, and become delinquent after September 15. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2007 taxable valuation of Osceola Township totaled \$26,134,314, on which ad valorem taxes levied consisted of 0.8586 mills for Osceola Township operating purposes. The levy raised \$22,480 for operating purposes.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvement	20
Land improvements	20
Infrastructure	30
Equipment	10
Furniture, Equipment and Fixtures	5-10

Osceola Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning April 1, 2004, in accordance with the Township's capitalization policy.

**5. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The Township currently has no long-term obligations.

**6. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**7. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on April 9, 2007, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Funds with Expenditures in Excess of Appropriations were as follows:**

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Township Board	\$ 5,300	\$ 5,921

This overage was funded by greater than anticipated revenues and available fund balance.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Township's deposits are all on deposit with Citizens Bank and Chemical Bank in Evart, Michigan.

*Investment rate risk.* The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

*Foreign currency risk.* The Township is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

*Concentration of credit risk.* The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2008, none of the government's bank balance of \$187,378 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

**B. Receivables**

Receivables as of year end for the government's individual major fund are as follows:

	<u>General</u>
Receivables	
Taxes	\$ 2,827
Due from Other Governments	<u>18,054</u>
	<u>\$ 20,881</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.



OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

**C. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 24,600	\$ 0	\$ 0	\$ 24,600
Capital assets, being depreciated				
Buildings and Improvements	44,098	0	0	44,098
Equipment, Furniture and Fixtures	23,562	0	0	23,562
Infrastructure	100,000	52,462	0	152,462
Total capital assets, being depreciated	167,660	52,462	0	220,122
Less accumulated depreciation for:				
Buildings and Improvements	24,320	2,025	0	26,345
Equipment, Furniture and Fixtures	11,931	1,516	0	13,447
Infrastructure	8,611	3,625	0	12,236
Total accumulated depreciation	44,862	7,166	0	52,028
Total Capital assets, being depreciated, net	122,798	45,296	0	168,094
Governmental activities capital assets, net	\$ 147,398	\$ 45,296	\$ 0	\$ 192,694

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 3,541
Public Works	3,625
	<u>\$ 7,166</u>

**Construction Commitments:**

The government has no outstanding construction commitments as of March 31, 2008.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**D. Long-Term Debt**

At March 31, 2008, the Township was not obligated for any long-term debt.

**E. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at March 31, 2008, were:

<u>Fund</u>	<u>INTERFUND RECEIVABLES DUE FROM'S</u>	<u>INTERFUND PAYABLES DUE TO'S</u>
General Fund	\$ 1,628	\$ 0
Fiduciary Fund		
Current Tax Collection Fund	0	1,628
	<u>\$ 1,628</u>	<u>\$ 1,628</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

**F. Fund Balance Reserves**

The Township has a reserved fund balance of \$2,559 for Telecommunications Right-of-Way Maintenance.

**G. Sale of Future Revenues**

For several years, the Township has sold its rights to delinquent real property tax revenues and related late payment penalties to the Osceola County treasurer. For the 2007 tax roll the District will receive a lump sum payment of \$2,827 for general operating tax revenues. This amount represents 100% of the present value of the delinquent real property tax revenues. In exchange for these payments, the county is allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the Township will have to repay the county.

**IV. OTHER INFORMATION**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

**B. Retirement Plan**

Effective June 26, 1991, the Township established a Simplified Employee Pension – Individual Retirement Account (SEP-IRA). The plan was established with Citizens Bank. The plan covers all employees who meet minimum participation requirements based on annual compensation. To be eligible for plan coverage each employee must be at least 18 years of age.

The formula for determining contributions is based on an employee's annual compensation. Annual compensation is based on compensation which coincides with the calendar year coinciding with or ending within the plan year. The Township has elected to contribute 7.5% of compensation to the plan annually.

The Township contributions to the plan for 2007-2008 plan year amounted to \$2,994.

Total wages for those covered under the plan was \$39,676 and total wages for all employees including non-covered payroll was \$39,953.

The individual retirement account balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which are includible as part of the Township reporting entity.

**C. Current Tax Collection Balance**

The balance of \$1,628 remaining in the current tax collection fund at March 31, 2008, consists of current tax collections, interest earnings, and collection fees which will be transferred to the township General Fund.

**D. Joint Fire District**

The Township is a member of the Evert Area Joint Fire Department. The Fire Board maintains the records for the fire department. The Township's assessment for support of the fire department for 2007-2008 was \$15,754. The fire district is a joint venture supported by the City of Evert and the Townships of Evert, Orient, Osceola and Sylvan. The following information was taken from Evert Area Joint Fire Department's June 30, 2006, audited financial statements.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

Total Assets	\$ 71,200
Total Liabilities	1,158
Fund Balance	70,042
Total Revenues	202,132
Total Expenditures	256,618
Net Increase (Decrease) in Fund Balance	(54,486)

A copy of these audited financial statements may be obtained upon request from the Fire Department Treasurer.

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUND

YEAR ENDED MARCH 31, 2008

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 24,000	\$ 24,000	\$ 22,480
Licenses and Permits	700	700	350
State Grants	77,500	77,500	79,047
Charges for Services	425	425	323
Interest and Rents	3,150	3,150	7,197
Other Revenues	4,500	4,500	2,475
Total Revenues	110,275	110,275	111,872
<u>EXPENDITURES</u>			
Legislative			
Township Board	5,300	5,300	5,921
General Government			
Supervisor	12,700	12,700	12,530
Election	250	982	982
Assessor	6,650	6,898	6,672
Clerk	10,750	10,750	10,361
Board of Review	1,200	1,615	1,365
Treasurer	10,800	10,854	10,713
Building and Grounds	20,100	21,557	11,236
Public Safety	16,700	16,700	16,584
Public Works	50,000	52,462	52,462
Community and Economic Development	5,900	5,955	1,420
Recreation and Cultural	7,500	8,112	8,112
Other Functions	4,500	5,386	3,573
Total Expenditures	152,350	159,271	141,931
Net Change in Fund Balance	(42,075)	(48,996)	(30,059)
<u>FUND BALANCE</u> - Beginning of Year	237,600	237,600	237,600
<u>FUND BALANCE</u> - End of Year	\$ 195,525	\$ 188,604	\$ 207,541

OSCEOLA TOWNSHIP, OSCEOLA COUNTY  
EVART, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED MARCH 31, 2008

	BALANCE			BALANCE
	4/1/2007	ADDITIONS	DEDUCTIONS	3/31/2008
	<hr/>			
	<u>ASSETS</u>			
Cash	\$ 2,247	\$ 402,802	\$ 403,421	\$ 1,628
	<hr/>			
	<u>LIABILITIES</u>			
Due to Other Funds	\$ 1,496	\$ 20,339	\$ 20,207	\$ 1,628
Due to Other Governmental Units	751	382,463	383,214	0
	<hr/>			
Total Liabilities	\$ 2,247	\$ 402,802	\$ 403,421	\$ 1,628
	<hr/>			

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

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September 17, 2008

To the Township Board  
Osceola Township  
Osceola County  
Ewart, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Osceola Township, Osceola County, Ewart, Michigan as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Osceola Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

## 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

## 2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described above are material weaknesses.



This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
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September 17, 2008

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Township Board  
Osceola Township  
Osceola County  
Evart, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Osceola Township for the year ended March 31, 2008, and have issued our report thereon dated September 17, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 17, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Osceola Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed several adjusting journal entries which were reviewed and accepted by management. No material misstatements were noted.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 17, 2008.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit of the basic financial statements of Osceola Township for the year ended March 31, 2008, we noted the following list of items which we feel deserve comment:

#### Current Tax Collection Fund Balance

As of March 31, 2008, a balance remained in the current tax collection fund. We recommend that any balance remaining in the current tax collection fund be paid out prior to the end of the fiscal year.

#### Capitalization Policy

The Township should officially adopt and record in the minutes its' Capitalization Policy of \$500. We have provided an appropriate sample policy for the board to consider for adoption.

### Budgeting

The Township should continue to monitor its compliance with PA 621 for items such as amending the budget during the year if activities are expected to exceed appropriations. Also, budgets should be adopted prior to the beginning of the year for which the budget is being adopted.

### General Fund Recordkeeping

During our audit we encountered difficulty in balancing the General Fund transactions. Within the same Quickbooks electronic file Tax Collection Fund transactions were being accounted for. The activity of the two funds should not be commingled within the same ledger. Each fund's activity should be accounted for in a separate ledger.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*